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ABSTRACT

To determine how best to connect public work force services in Texas with employers' needs, a study reviewed literature on employer involvement in government-sponsored training programs. Study activities included the following: review of findings from two recent national surveys on employer training, identification of states most strongly committed to reforming and linking their work force efforts more closely to employer needs, and interviews with Texas employers. Findings indicated that traditional approaches to involving private employers had limited success. Clashing cultures impeded employer engagement. Shareholder returns drove the business world, regulations ruled the public sector, and public program staff were not motivated to market services. Employers held negative images of government. Indiana, Massachusetts, Michigan, North Carolina, and Wisconsin were developing demand-side, market-based work force systems more responsive to employer needs than traditional programs. Third-party intermediaries, networks, and consortia arrangements held promise. Employers lacked awareness and good information. A proposed approach to employer engagement has would include the following: putting them first, providing basic services, targeting them for specialized services, conducting market research, developing marketing and sales strategies, meeting their education and training needs, and developing economic relationships with them. An action plan focused on what state government could do to promote employer engagement. (Appendixes contain 45 references and employer interview guide.) (YLB)

Engaging Employers in Public Workforce Efforts in Texas

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Engaging Employers in Public Workforce Efforts in Texas

Introduction

Despite well-intentioned efforts of the past, public job training and employment programs continue to operate in relative isolation from private employers and the jobs they control. While there are examples of individual programs that have effectively bridged the public-private gap, they are exceptions to the norm and, even taken together, do not approach the quality and scale needed to significantly improve the competitiveness of employers or residents facing the global economy.

The failures of the past cannot be blamed on ignorance or lack of effort. Public policy makers and program operators have long recognized the importance of preparing workers for jobs that exist. Over the years they have tried a variety of approaches, but their tools have been crude, at best inappropriate and ineffective. In most cases, the services available through the various job training and employment programs did not offer solutions to employers' human resources problems. Their efforts were further impeded by the fact that private employers and program staff do not even speak the same language. They come out of different environments and bring dissimilar perceptions and experiences to the table. These differences make both parties suspicious of each other's motives, so it's not surprising that meaningful connections were not established between employers and those receiving public workforce services (McPherson 1997).

Workforce reform in Texas, with its strong employer focus and commitment to creating an integrated system that better responds to the needs of employers and residents, offers the state a chance to make that connection between public workforce services and employer needs—this time for an entire delivery system rather than for stand-alone programs here and there. It is a unique opportunity to make a clean break with approaches of the past, their negative image and their limited successes.

The framework for a new approach is set out in state law. The Texas Council on Workforce and Economic Competitiveness (TCWEC), the newly created Texas Workforce Commission (TWC) and a statewide network of 28 local workforce boards all have key roles in planning and managing the state's new workforce system. Private employers are represented at every level: on TCWEC, the state-level policy, planning and evaluation entity; at the TWC, where the commissioner representing employers serves as chair; and at the local level, where at least 51 percent of the workforce board members must be employer representatives.

These local boards are to work in partnership with local elected officials to plan, contract out for service delivery and oversee and evaluate the effectiveness of services to employers and residents. To enhance their autonomy, the law requires that local boards be staffed with professionals who are separate from and independent of any other workforce entity in their area. In addition, much of the funding available for workforce services is block granted to local areas. This effectively decentralizes policy decision making from state agencies to the local level, where most employers hire workers and most residents obtain the knowledge and skills they need to be productive workers. Further, state law requires that local boards design service delivery systems that include an employer services component.

The vision behind these requirements is the creation of local capacity across the state to market solutions to employers' human resources needs and problems, provide quality services and thereby effectively connect public workforce efforts with the employer community. It recognizes the fact that a workforce system has two sets of customers, employers and residents, and that, of the two, employers are primary. By first responding to employers' needs, the system can best meet the employment and training needs of those individuals seeking assistance and offer access to quality jobs not otherwise available to them. In essence, this approach offers employers majority ownership in the new system if they will accept it.

While the framework for a new system with a stronger employer focus is set in state law, the way it is implemented will determine whether new and more effective relationships between public workforce efforts and private employers are forthcoming—relationships which ultimately better serve both Texas employers and residents. Will the state simply employ the same approaches used in the past to engage employers or will it risk a new approach that holds greater potential for success?

Purpose of the Paper

This paper raises and answers a series of questions related to how best to connect public workforce services in Texas with employers' needs. What do we mean by employer engagement, and what do we expect as a result of their engagement in the state's new workforce system? How well have past approaches to engaging employers in public job training and employment programs worked? What are other states doing?

What approach should Texas take now? How do we put that approach—or some variation of it—in place?

Our hope is that state leaders will choose the high-risk course to engaging employers in the workforce system currently unfolding. With risk come mistakes, but the risky approach also offers the greatest potential return for Texas employers and workers.

Methodology

We started the research work for this paper with an extensive literature review of employer involvement in government-sponsored training programs in the United States since the 1960s. Second, we reviewed findings from two recent national surveys on employer training: *Employer-Provided Training: Results From a New Survey*, a 1994 survey of 12,000 nonagricultural business establishments conducted by the U.S. Department of Labor's Bureau of Labor Statistics; and *First Findings From the EQW National Employer Survey*, a 1994 survey of 4000 private establishments conducted by the National Center on the Educational Quality of the Workforce.

Third, we conducted an informal survey of the states to identify those most strongly committed to reforming their workforce efforts and linking them more closely to employer needs. Based on survey findings, we selected five states with a high-skill, high-wage orientation—Indiana, Massachusetts, Michigan, North Carolina and Wisconsin for more in-depth investigation.

Finally, we conducted a number of interviews with selected employers across Texas, including employer representatives serving on TCWEC, to verify our research findings and gather insights. The employer interviews also helped update an earlier employer survey conducted by Center researchers (King et al. 1996). Those earlier findings were largely validated by this recent research.

Employer Engagement

What do we mean by employer engagement and why do we want employers engaged in Texas' new workforce system? What do we expect as a result of their engagement? It is important to distinguish employer engagement from mere involvement or participation. By our definition, private employers who are *engaged* in the new workforce system must be integral partners with government and labor from the outset in designing the system and its services, developing and implementing policies, providing services in some cases, and evaluating results. In all areas, their role must be large enough to engender a strong sense of ownership. They must come to view the new system as a quality supplier meeting their human resources needs, regularly use its services and readily recommend them to other employers.

Thus, engagement is substantive and encompassing and tends to be long-term and ongoing. It reaches well beyond what Bailey (1994), and Lynn and Wills (1994) referred to as community-service participation (King et al. 1996). It is much more than token involvement to fulfill political, social and/or moral obligations. Engagement is based on economic need, not social welfare concerns. It is not motivated by sympathy or obligation. Rather, private employers must see direct economic benefits from their engagement—additional sales, increased cash flow and/or wider profit margins. If they don't, they won't engage.

Undoubtedly, it is far more difficult to engage rather than simply involve employers in public workforce initiatives. Engagement requires the development of trusting relationships based on employers' receiving quality services over time. Building such relationships demands considerable investments of time and money, and requires approaching employers differently than have the traditional government job training and employment programs. Most important, it requires recognizing employers as the primary customers of the new workforce system, identifying their human resources needs and marketing appropriate solutions.

So why is engaging employers so important, and what do we expect as a result? Without employers being engaged, the new workforce system would be much like a real estate broker with willing sellers but no buyers. It's difficult to make a sale. Employer engagement is absolutely critical for accurately identifying and responding to employer needs, gaining access to jobs not normally available to those receiving public workforce services, and providing appropriate information and education and training services to those seeking assistance.

Employer engagement is the only way to effectively connect labor supply and demand. Without such a connection, public education, job training and employment services operate without market focus. Inefficiencies abound for all involved—the individuals referred or trained by these programs, employers unable to find qualified workers and taxpayers. With private employers engaged, individuals are more likely to be prepared for jobs that exist, and employers are more likely to use services of the new workforce system to meet their human resources needs. Everyone benefits.

An Assessment of Past Approaches

Involving employers in public employment and training initiatives is not a new idea. Over the last three decades policy makers at all levels have tried a number of different ways to get private employers to participate in public education, job training and employment initiatives. They have invited employers into program governance and management; enticed employers to hire and train program graduates or targeted population groups; offered customized training to support business relocation, expansion and restructuring; and in some instances contracted with private employers to provide workforce services directly. Except for the last two options, however, employers have shown little interest and made only token responses to these overtures. They have participated at the margin, but they have not become actively engaged.

Why haven't employers shown stronger interest? To begin answering that question, this section briefly describes previous efforts and assesses their effectiveness.

Involving Employers in Governing and Managing Public Programs

Private employers have participated on the boards and committees of public job training and employment programs from the outset. Their involvement has been at all levels of government and has ranged from holding a simple advisory role to actually managing programs and providing services.

Mandated repeatedly in federal workforce legislation since the 1960s, the employer's role was expanded significantly in the late 1970s with amendments to the Comprehensive Employment and Training Act, which created the Private Sector Initiatives Program and local Private Industry Councils (PICs) as employer-dominated advisory bodies. With the passage of the Job Training Partnership Act (JTPA) in 1982, the PICs were authorized to become full partners with local elected officials in planning and administering job training and employment programs at the local level. More recently, the Goals 2000: Educate America Act of 1994 requires employer participation in setting skill standards for education and job training programs.

At the state level, employers have been represented in various policy advisory and governing boards of state agencies. In the workforce area, the employer representative on the TWC currently serves as chair of the Commission, and employers have strong representation on the Texas Department of Commerce's policy advisory board. Private employers are also represented on TCWEC, the state's human resources investment council authorized under JTPA.

Employers also participate on local job service employer committees, vocational-technical training committees and the boards of many local service providers. A prime example is the advisory committees attached to occupational training programs in community colleges, on which employers are majority members. Their purpose is to provide valuable market information on a wide array of topics such as labor skill requirements, hiring standards and trends in employment to college administrators and planners.

In reality, however, critics have found little evidence that these committees actively engage in these activities (Grubb 1996). "Several community colleges meet with them only annually, and employers who were members of such communities clarified how inactive they had been" (Grubb 1996, p. 177). Moreover, Grubb finds that there is a startling difference between the colleges' and employers' perceptions of these advisory committees. While college administrators and department heads referred to such committees as strong links to employers, the vast majority of employers were unaware of their existence.

In fact, as Grubb points out, many educational institutions serving the sub-baccalaureate labor market are relatively distant from employers and have little knowledge of specific employers, job opportunities, hiring requirements, promotion opportunities in various occupations or other aspects of local employment that are crucial to their students and to the content of their programs. The incentives for these institutions to change are weak since funding for schools is driven by enrollments rather than outcomes. These two worlds coexist: that of educational providers, enrollment-driven but disconnected from employers, and of employers, unfamiliar with educational providers and indifferent to their activities (Grubb 1996).

The hope underlying federal requirements for employer participation in workforce programs was always that private employers would share their management expertise, provide legitimacy to public workforce efforts, provide access to private sector jobs, assume some degree of ownership, and share the costs of educating and training the workforce. The result would be better focused, more effective public workforce programs and better job opportunities for individuals served. These expectations have never materialized.

Some combination of forces always seems to neutralize private employers' contributions. First, the boards and committees they serve on tend to be staffed with government employees hired by someone else and more knowledgeable than they on the arcane rules and regulations that govern each of the various programs. Private employers are often in the minority, serving alongside agency bureaucrats and service providers who depend on these programs for their livelihoods. Even in the case of local PICs, where private employers constitute a majority of the membership, they are surrounded and overcome by those who work the policy area day-to-day. The situation is further exacerbated by the fact that these boards and committees are created not out of a perceived need identified by program staff, but simply to meet federal requirements. Unfortunately board members are often treated accordingly. Private employers—already suspicious of government's motives—are easily frustrated and quickly discouraged.

Second, private employers moving into the public workforce arena often leave their strong management practices at the door. They often see their role as fulfilling their public service commitment, the cost of doing business. With this perspective, they behave more like public than private officials. They either "get political" (i.e., worry about alienating certain groups or get overly concerned with the equitable distribution of resources rather than with setting clear priorities, defining results and making cost-effective funding decisions) or they see their role as that of advocates for tax cuts and reduced government spending.

Our suspicion is that employer representatives on these boards do not take strong stands because public workforce issues, as traditionally constituted, are low priority issues for them. There are other areas where they must do business with government which directly and more immediately affect their economic futures. They are not willing to alienate either the elected officials who appointed them or the larger community they depend on with a decision on a workforce issues that has no similar impact. It simply isn't worth it.

Employer contributions are also neutralized by program staff who drag private employer board members—accustomed to taking action and seeing results—into the arcane details of administering federal programs at levels they never need to know or understand. When they are not treated as the policy advisors they are, private employers who are volunteering their time lose interest and never return. If they do not withdraw completely, they send government relations people or other junior staff in their place. While often committed board or committee members, these substitutes do not represent the connection public policy makers had in mind when they mandated employer involvement.

Needless to say, putting private employers on boards and commissions has never met the expectations of policy makers, nor has the experience been productive or satisfying for employers. While they continue to participate, they have seldom engaged or assumed ownership of the programs they are involved with.

Enticing Employers to Hire Program Graduates or Targeted Population Groups

Early on, public officials appealed to private employers to hire graduates of workforce training programs or individuals from certain segments of the population deemed at the time to need special assistance. When these did not produce the desired results, a number of financial schemes came into vogue to encourage employer participation. These included wage subsidies in the form of on-the-job training (OJT) contracts and targeted tax credits, and tax abatements for creating jobs and hiring individuals from blighted central city neighborhoods.

The primary objective of these targeted subsidies to employers is to increase the employment of eligible workers. This is achieved by lowering the net cost to employers of hiring additional targeted workers. It is important to remember, however, that these incentives are only effective when they result in the hiring of targeted individuals who otherwise would not have been hired and generate a net increase in the long-term employment of such workers. There are several important effects of such subsidies which must be evaluated: 1) impact on who is hired; 2) net new jobs created; and 3) the long- and short-term effects. Net impacts are the most crucial measure for program evaluation. An extensive literature review reveals that financial incentives of various kinds, except in a few cases, have consistently failed to produce the anticipated net job gains.

The Theory in Brief. On-the-job training contracts, tax credits and tax abatements have the effect of a direct subsidy to the employer for those employees hired under the program. For the employer, this credit amounts to a reduction in the cost of labor. The effect of the credit depends crucially on the labor supply of the target group. The workers or firms not targeted are placed at a competitive disadvantage, which may result in job losses. On the other hand, employment subsidies may increase the employment of workers who are complementary to the subsidized group. As for temporary employment subsidies, they may cause changes in the time pattern of employment. Increases in employment while the subsidy is in effect may come partly at the expense of future employment, since a temporary subsidy provides an incentive to moved planned production and maintenance activities forward in time (King et al. 1996).

Comparing Approaches and Finding Evidence of Success

On the Job Training Contracts. Initially, the policy focus was on getting private employers to make public commitments or "pledges" to hire disadvantaged adults and youth. Pledges to hire were generated through highly visible appeals to employers' sense of social responsibility. The National Alliance of Business' (NAB) Job Opportunities in the Business Sector (JOBS) program in the late 1960s is one of the most memorable examples of this approach. Pledging to hire under the NAB-JOBS program, however, required little financial commitment on the part of participating employers or the federal government. As the publicity waned and pledges were not sufficient to produce the desired results, policy makers begin offering wage subsidies in the form of on the job training (OJT) contracts where employers hired and then trained targeted population groups. For doing so the employers received payment of up to one-half the first six months wages to cover the extra costs associated with training those they hired (King et al. 1996).

While employers were willing to make pledges in response to public encouragement, the number of actual hires always fell far short of commitments made in the excitement of the moment. Nevertheless, efforts to exact pledges from private employers continue despite questions about their effectiveness. Recently, state and local governments sought private sector pledges of summer jobs for disadvantaged youth as Congress once again threatened to eliminate the federally funded Summer Youth Employment Program. Even more recently, the president's volunteerism conference in Philadelphia in April called on American businesses, to help educate, mentor and provide work experiences for at-risk youth, and in the last two weeks to hire welfare recipients to solve the dependency problem.

While critics continue to doubt the effectiveness of OJT, some researchers have turned up findings that argue that OJT is a cost-effective means to promote employment growth among the target groups.

The critics contend that OJT, similar to targeted tax credits, may in fact be providing windfall benefits to employers who take advantage of the subsidy for individuals they would have hired anyway (Levitan and Gallo 1990). According to a 1988 audit report released by the Labor Department's Office of the Inspector General, about 60 percent of the employers who receive OJT subsidies under JTPA stated that they would have hired the same individual without the financial inducement. Moreover, in a 1988 study of JTPA program effectiveness, the General Accounting Office (GAO) found that more than half of the OJT contracts in lower skill occupations provided for excessive periods of subsidized training. Furthermore, GAO contends that about 85 percent of the individuals hired under OJT contracts already had experience in the occupation for which they were hired (U.S. House of Representatives, Committee on Education and Labor 1988).

There is also anecdotal evidence that some employers enter into OJT contracts for the subsidy alone. They hire workers from the targeted group, employ them until the subsidy ends, provide very little structured training and then for one reason or another let them go. They remain quite willing, however, to hire another eligible worker and continue participating in the program. In effect, they "churn" hires to keep jobs continuously subsidized. We are not suggesting that this practice is widespread or common, simply that it has happened and it can happen again, particularly with low-wage, high-turnover employers operating at the margin.

Other research, however, suggests that OJT is a cost-effective means of getting employers involved and getting graduates of public training programs hired. A few state and national studies in recent years suggest that OJT has generated net employment or earning gains for certain targeted groups of participants (Auspos, Cave and Long 1988; Bryant, Cave and Freedman 1988; Bloom et al. 1994; Bell and Orr 1994; and U.S. Department of Labor 1995). In particular, the National JTPA Evaluation Study found positive effects on earnings of disadvantaged adults participating in service strategies that included OJT with private employers (Bloom et al. 1994). However, this study also shows the same approach has negative impacts on the employment prospects or earnings of out-of-school disadvantaged youth.

Nevertheless, other researchers caution that the past success of OJT was attributed to its relatively small size. They have subsequently found it difficult to run effective large-scale OJT programs for welfare recipients (Bryant, Cave and Freedman 1988). Thus, they suggest that OJT should be only a limited part of the overall service strategy for welfare recipients.

Tax Credits. Tax credits are another financial incentive commonly offered private employers as an inducement to participate in public workforce initiatives. Their history can be traced to the Work Incentive Program (WIN) of the early 1970s, which offered tax credits to employers willing to hire welfare recipients. Better known is the often discussed and more popular federal Targeted Jobs Tax Credit program (TJTC), which began in the late 1970s and continued under the same name until 1994. Much broader in scope than WIN, this program provided tax credits for private employers hiring from any number of groups identified as having special barriers to employment (e.g., youth, the long-term unemployed and welfare recipients). Tax credits are still used today to encourage employer involvement. For example, with slight variations TJTC has been reincarnated as the Work Opportunity Tax Credit in recent legislation increasing the federal minimum wage.

Based on numerous, well-documented studies with empirically tested results, tax credits have attracted only a small number of employers, and in most cases they did not significantly influence the hiring practices of those who did participate (Hamermesh 1977; Burtless 1985; Levitan and Gallo 1990; Bishop and Kang 1991). Again, as with OJT contracts, there are questions as to the types of employers that are attracted. Many appear to be those needing the subsidies to stay solvent. They are not likely to be committed or financially able to make investments in further developing the skills of their workers, nor do they represent good prospects for long-term employment.

Researchers attribute low participation by private employers to a combination of factors: the fear of added paperwork and government regulation, hesitancy to get involved with a government program marketing individuals with apparent labor market deficiencies, the offer of the wage subsidy itself, and the fact that the value of the subsidy does not always adequately compensate for the additional costs of hiring and training members of the targeted groups (DOL 1989).

In fact, the combination of program participation coupled with the offer of an OJT contract or a targeted tax credit offer may actually work to the disadvantage of the job seeker. A controlled experiment in the 1980s illustrates the point. Two randomly selected groups were sent to look for work. One group identified themselves to employers as participants of a public employment and training program and eligible for a wage subsidy while the other group did not. The groups were alike in all other respects. Remarkably, the hiring rate of the second group was substantially above that of the first. The connection with the employment and training system was so negative that it outweighed the wage subsidy (Burtless 1985).

Our own research suggests that the offer of a wage subsidy signals an "inferior good" and inadvertently stigmatizes the job seeker. In a 1994 survey, Austin high-tech employers reported that financial inducements to hire were "both unnecessary and too costly in terms of regulations and paperwork" (King, et al. 1996, p. 25). Many of those interviewed repeatedly stressed that the best incentive for engaging employers is to provide them with a quality product, meaning job applicants with basic knowledge and skills the employers need along with the ability and willingness to continue learning. Further, they stated that the availability of wage subsidies did not change their hiring behavior at all. A more recent round of interviews with Texas employers as part of the research for this paper reinforces these earlier findings.

Moreover, other researchers assert that targeted tax credits, rather than stimulate the creation of new jobs, cause some employers to substitute individuals from the targeted group for those they would otherwise have hired. While tax credits may change the mix of who gets hired, there is no net increase in long-term employment for those targeted. In cases where employers have traditionally hired from these targeted population groups, the wage subsidy results in a financial windfall. There are also other effects. According to Robert Sheets, "Government tax credits or training levies run a greater risk of subsidizing already existing training programs for managerial and professional employees and training programs that are peripheral to competitiveness or provide skills that are not easily transferable to other companies" (Sheets 1992, p. 16).

The only anomaly in our findings is a recent study conducted by economist Lawrence Katz, which suggests that TJTC, along with training, job search assistance and job development efforts, has positive employment effects on economically disadvantaged young adults. This is similar to the earlier case where OJT was found to be cost effective for adults when part of a broader service strategy. Katz agrees, however, that stand-alone wage subsidies targeted on specific groups such as welfare recipients appear to have low utilization rates and may stigmatize the targeted group (Katz 1996).

Despite numerous studies criticizing targeted tax credits as ineffective and wasteful, Congress has extended the TJTC program seven times since 1981 and only discontinued it in 1994, after the release of two negative audits by the U.S. Labor Department's Office of the Inspector General. Some attribute the popularity of TJTC to the well-organized lobbying efforts of companies that benefit most from the credit—large companies, often fast-food restaurants, with low-skilled jobs and high turnover rates (Victor 1993). As noted earlier, the program lives on under a new name, Work Opportunity Tax Credit, at least through September 1997. Employers who hire people from economically disadvantaged backgrounds are eligible for a tax credit equal to 35 percent of an employee's first $6,000 in wages if the employee is retained for at least 400 hours or 180 days.

Tax Abatements. Tax abatements to entice employers to expand or relocate in certain geographic areas have been around for a long time. In fact, they are the major lure used by most state and local economic development entities to compete with each other and even other nations for new businesses and jobs. State and local officials offer to abate property taxes for a specific time period in return for the targeted employer's commitment to relocate or expand, create jobs and hire residents of the state or locality.

The federal government also gets into the economic development and tax relief business with enterprise zone legislation to revitalize economically distressed areas by attracting new businesses and expanding existing businesses. Since the federal legislation passed in the early 1980s, nearly forty states have enacted their own enterprise zone legislation to stimulate targeted economic development and employment growth in blighted, distressed and declining areas. Under this program, businesses already located or willing to locate in enterprise zones are offered tax breaks to expand their operations, invest in new equipment and hire residents of the zone. In addition, they are offered special help in meeting the regulatory, permitting, and financing requirements associated with relocating or expanding their businesses in the zone.

A slight variation of this approach came in the 1993 Budget Reconciliation Bill. There the federal government authorized the designation of six urban and three rural empowerment zones and committed resources to supporting economic development activities in the areas eventually designated. As part of this initiative, employers who locate or expand in an empowerment zone are eligible for a 20 percent tax credit on the first $15,000 of wages and training expenses for each zone resident they hire.[1]

While the net job gain in the new empowerment zones remains to be seen, a review of the evaluations of the longer-standing enterprise zones reveals discouraging results not unlike those found for the OJT and targeted tax credit programs discussed earlier. More specifically, empirical studies and recent research on enterprise zones in California, Maryland, New Jersey and Texas have not shown positive results. Economic development efforts in the zones have simply failed to generate the expected net employment gains (Levitan and Miller 1992; Beyeler, Dowall and Wong 1994; U.S. General Accounting Office 1994; and Texas State Auditor's Office 1994).

In summary, justifications for using financial incentives are seriously lacking. Whether they come in the form of OJT contracts, targeted tax credits or tax abatements, financial incentives do not produce the employment gains for those targeted or entice private employers to get actively engaged in public workforce initiatives. Moreover, they are not cost effective.

Offering State-Financed Customized Training to Private Employers

State-financed customized training represents another approach to engaging employers in public workforce development efforts. According to the most recent survey available, 47 states now finance and operate one or more customized training programs as part of their economic development efforts. While most programs are relatively small, a few of the larger states—California, Texas, Illinois and Michigan—have made sizable

[1]One of the three rural empowerment zones is located in the Lower Rio Grande Valley of Texas.

commitments ranging from $40 to $85 million annually to state-financed worker training (Duscha & Associates 1996).

Initially, customized training initiatives were designed as part of states' industrial recruitment packages to lure employers and jobs from other states. As they spread across the country, however, their focus broadened to accommodate the differing economic development objectives and changing economic conditions of the states. While pressures to continue using these programs to attract new employers remain strong, today they are increasingly used to encourage the expansion and retention of existing employers in the state. Accordingly, the initial focus on training new hires for new and expanding firms has widened to include the upgrading and retraining of employed workers at risk of losing their jobs (McPherson and Hallman 1993).

Customized training, in its evolved state, has several characteristics that distinguish it from other job training and employment programs. It is driven by economic rather than social welfare objectives; it focuses exclusively on employer needs; it is flexible and responsive, allowing quick responses to unexpected opportunities and changing economic conditions; and worker eligibility is broad, in many cases state residency being the only requirement for participation. As such, customized training is an attractive part of state and local business development packages, particularly since they don't require that those hired or trained be economically disadvantaged or come from a certain segment of the population. Moreover, customized training has become the centerpiece for the market-based workforce systems evolving in many states, some of which are discussed in the following section.

Although customized training has received a great deal of attention recently and is well-recognized and often used by private employers, there has been little systematic evaluation of this approach to date. Two recent evaluations of the California program, the Employment and Training Panel, give it high marks for retaining jobs, substantially increasing the earnings of the trainees and the productivity of participating employers and for having a significant impact on the state economy (McPherson and Hallman 1993). These evaluations, however, were not conducted according to experimental or even quasi-experimental research designs, and their methodology is subject to upward bias and does not therefore yield definitive evidence (King 1996).

Contracting with Private Employers to Provide Workforce Services

Finally, contracting with private employers to provide workforce services is another technique for encouraging their participation. For many years private employers have operated federally-funded Job Corps centers. Most recently, nationwide trends to privatizing government functions and services at all levels have brought renewed interest from the business community. In Texas, much of this interest has centered around the Texas Integrated Enrollment System (TIES), a major initiative to centralize, automate and privatize the eligibility process for a number of the state's health and human resources programs. This initiative was authorized in 1995 as part of House Bill 1863. In other provisions, the legislation requires local workforce boards to contract for the provision of workforce services in 28 areas across the state. This opened the door for private employers and others to bid to operate career development centers in each of these areas.

These opportunities generated a great deal of interest from Electronic Data Services (EDS), Lockheed-Martin and others. Currently, these companies are competing to operate TIES statewide, and Lockheed-Martin is also bidding to operate local career centers in key locations across the state. The successful bidders will get engaged; however, it will be a different kind of engagement in that they will become direct providers of government-sponsored services. Rather than engaging as customers, supporting the system based on the quality of services provided and readily hiring its graduates, these private contractors will automatically become part of the provider constituency with similar self-interests. As such, they will be advocates for the continuation of the workforce system and the new approach to service delivery from which they directly benefit. From this perspective, however, they will represent a strong business constituency for workforce development, something public workforce programs have never had.

Employer Engagement Efforts in Other States

Five states—Indiana, Massachusetts, Michigan, North Carolina and Wisconsin—are recognized nationally as leaders in building market-based workforce development systems and offer the most valuable insights into how other states are seeking to engage employers in their public employment and training efforts. It is noteworthy that the systems they are creating share features similar to those of the workforce system unfolding in Texas: consolidation of programs in a single state agency; integration of administrative and operational activities along functional lines; commitment to strategic planning and oversight; significant employer participation in policy making at the state and local levels; provision of services at the local level through a network of policy boards and career centers; service delivery driven by employer and worker needs; and performance-based accountability (NCEE 1995, NGA 1996, Sheets and Stevens 1990).

It is also noteworthy that the approaches taken by these five states have evolved over the last two decades to meet labor market needs essentially neglected by traditional job training and employment initiatives. As such, their efforts and experiences offer hard won insights for Texas policy makers. What they have learned falls into five broad categories: building a reputation as a quality service provider; developing sustainable market relationships; responding to employer needs; encouraging the development of industry skill standards and lowering the barriers to employer participation.

Building a Reputation as a Quality Service Provider

Leaders in each of the five states recognize that overcoming the deep-seated skepticism with which most employers view public employment and training programs is critical to the success of their market-based approach. Their strategies for establishing reputations as quality service providers include making a strong commitment to quality, building a positive public image with private employers, promoting peer-to-peer marketing efforts, using third-party intermediaries, and continuously improving the state's workforce delivery system.

Making a Commitment to Quality Services. Workforce leaders in these states recognize that their systems' reputations with private employers depend on the quality, appropriateness, timeliness and value of the services they provide. Accordingly, they are striving to ensure that their workforce systems are totally committed to customer service and quality.

In Massachusetts, Total Quality Management is built into the management structures of the 16 Regional Employment Boards (REBs). A former REB director, recruited from Polaroid, stressed that REBs do not use financial incentives for engaging employers. Rather, he said, "If the services are good, employers will come." [2]

Much of the commitment to quality ultimately depends on local initiative. The State of Indiana does not dictate a formal quality process but allows local flexibility. Leaders there point out that "The key [to engaging employers] is offering quality services at the local level."[3] Michigan, under its state workforce agency, the Michigan Jobs Commission (MJC), has one of the most advanced "one-stop" service delivery systems in the nation. Its primary strategies for engaging employers also focus at the local level. While the state continues to use financial incentives for hiring, it offers nothing beyond the OJT subsidies available under JTPA. According to MJC Chief Operating Officer Doug Stites, the emphasis is on "making the case to employers of the quality and importance of its training services."[4]

Building a Positive Public Image. Providing quality services and building a positive image with private employers and the general public go hand-in-hand because a workforce system's reputation is shaped ultimately by the quality of services it provides. But, raising public awareness about a new workforce system, distinguishing it from previous public initiatives, and building consensus on the important relationship between state workforce and economic development efforts also contribute to new and positive images. Leaders in these states are actively involved in conducting statewide public information campaigns, organizing speakers' bureaus and forums, and disseminating workforce system success stories. Recognizing that a sense of ownership among private employers and the general public is absolutely essential for implementing the changes they envision, they also recruit employer associations and labor organizations to help in these efforts.

Governors have been key to reforming their states' workforce programs, implementing the changes and communicating the potential benefits of a market-based approach. In some cases, they have personally led statewide promotional efforts, using their "bully pulpits" to promote a vision of economic growth centered around developing the state's workforce, rallying statewide employer groups, fostering collaboration among

[2]Telephone interview with Charles LaPier, acting executive director, MassJobs Council, 10-20-96.
[3]Telephone interview with Dr. William Christopher, director of Education Policy, Office of the Governor, State of Indiana, 10-22-96.
[4]Telephone interview with Doug Stites, chief operating officer, Michigan Jobs Commission, 10/30/96.

state agencies, and getting commitments from major employers. Michigan Governor John Engler, a former state legislator long committed to streamlining state government, is probably the best example. He has adopted workforce training as a top priority and invested considerable time in promoting the state's services to private employers. Most important, his involvement has elevated the stature of workforce development and generated greater employer involvement. A measure of his success is the caliber of private employers serving on local workforce development boards in Michigan. Many are senior vice presidents or higher.[5]

Massachusetts Governor William Weld also raised the profile of workforce development in his state. At the state level, he established the MassJobs Council (MJC), appointed his lieutenant governor as chair and named key employers and nationally recognized academics and practitioners as members. Without doubt, MJC is the strongest state workforce council in the nation. Massachusetts was also among the first states to move forward with employer-dominated local workforce boards, the REBs referred to earlier.

Governors in Indiana have shown a strong commitment to workforce development since the mid-1980s. A 1991 executive order by Governor Evan Bayh led to state-level consolidation of workforce programs and put Indiana among the leading states in workforce reform. This order created the Department of Workforce Development and charged it with managing all vocational education, job training, employment services, unemployment insurance and adult literacy programs. One of the department's first tasks was to investigate market-based approaches to workforce training and build them into the state's workforce system. The resulting plan emphasized employer engagement and placed demand-side strategies at the center of building a more competitive Indiana economy (IEDC 1993, IEDC 1994).

All state leaders, however, are concerned that their public relations and marketing campaigns not outstrip their capacity to provide quality services. They recognize that public confidence in government-run workforce systems would be further eroded if the marketing efforts are not backed up by quality services and other evidence that the new system is more productive and more cost effective than its predecessor. Wisconsin, for one, has limited statewide promotional efforts in favor of a more measured, less visible area-by-area approach to raising awareness that informs and educates local business groups when their workforce systems are ready.

[5]Stites interview, which also revealed that Michigan's PICs attracted only junior-level executives.

Promoting Peer-to-Peer Marketing. Recognizing the cultural and linguistic differences between business and government and the fact that private employers are extremely peer conscious, states are enlisting private employers to market employment and training services. Statewide conferences are common vehicles to inform employers, generate interest, and recruit employer leaders. In several states, business roundtables comprised of leaders from top companies have become powerful proponents of workforce development. These organizations are characterized by a bottom-line approach, "employer language" and up-to-date information. In North Carolina, for example, the Employer Leadership Council serves to recruit other employers. Colorado's business Executive-On-Loan initiative features CEOs donating time to visit and recruit other employers. In many states, entrepreneurial "account managers" at one-stop workforce centers are informally enlisting employers in their marketing efforts.

While all these ideas are worth consideration, our interviews with employers suggest that success is the most powerful marketing tool known. An employer who has successfully used the services of a new workforce system and found them high-quality and responsive to his needs is the best possible salesman.

Using Third-Party Intermediaries. The five states also seek out organizations that private employers view as credible to serve as third-party intermediaries or brokers of public workforce services. Characterized by a history of close collaboration with private employers, these third parties range from employer associations and labor organizations to public institutions such as university-based research organizations and manufacturing assistance centers that have earned employers' trust over time.

Wisconsin promotes the use of third-party intermediaries as catalysts for forming training consortia and other collaborative efforts to serve multiple public policy goals. For example, the Wisconsin Regional Training Partnership (WRTP) in Milwaukee brings employers and unions together to support worker retraining, employee involvement and transition to high-performance manufacturing in the metalworking industry. The partnership has strict eligibility criteria that support these goals: training for front-line workers must be benchmarked to a certain percent of payroll, an intra-firm facility for confidential worker testing and assessment must be created; and training funds must be administered by joint committees of managers and workers with equal authority.

Negotiating the interests of both employers and workers, this government-supported partnership has achieved sustained commitment from firms and unions and safeguarded the concerns of front-line workers. According to its executive director, the program is successful because it serves to "empower companies and workers to work together on their own, determine their own needs, and devise their own solutions."[6] An indicator of the value of this approach to employers is the fact that WRTP's executive council is considering membership dues to become self-supporting.

The WRTP approach is expanding statewide in the form of the Wisconsin Manufacturing Extension Partnership, an initiative funded by the US Department of Commerce's National Institute of Standards and Technology. This effort assesses the competitiveness of the state's small and medium-sized employers and combines modernization services (i.e., technology and process improvements) with worker training to improve performance.

The Alliance for Employee Development and Growth, a joint union-management initiative by AT&T, the Communication Workers of America and the International Brotherhood of Electrical Workers, is another example of the use of a third-party intermediary. It originated out of a need to assist laid off AT&T workers, but the Alliance has since broadened its focus to encompass the retraining of incumbent workers whose jobs are threatened by skills obsolescence. Alliance Plus, a for-profit offshoot, now offers these services outside AT&T.[7] Both initiatives are now operating in a number of states including Arizona, New Jersey, New York and Texas.

Instituting a Continuous Improvement System. A final component of building a reputation as a quality service provider involves a commitment to continuous improvement. Continuous improvement is language that private employers understand. If workforce systems will develop such a commitment and follow through with effective implementation strategies, their reputations with employers will be enhanced. Currently, the five states rely primarily on anecdotal evidence, customer-satisfaction surveys of employers and job-seekers, and informal exchanges with employers to obtain customer feedback on service quality. Most, however, are in the process of developing quality assurance systems driven by customer needs. Career centers that achieve high percentages of satisfied customers will be rewarded. Those that don't will be sanctioned.

There are a variety of efforts to develop of continuous improvement systems underway in other states as well. California, for example, has recently established a formal employer council to provide regular customer feedback to its state-financed customized training program. However, these efforts are limited and fall short of a continuous improvement system based on a comprehensive set of "best practices" for listening to customers and acting on their needs.

[6]Telephone interview with Randy Berthe, executive director, Wisconsin Manufacturing Extension Partnership, 10-26-96.
[7]Interview with Claudia Rogers, associate director,The Alliance, Austin, Texas.

Nationally, the Enterprise Council, a Department of Labor initiative to promote quality services for dislocated workers, has assisted 160 PICs through a rigorous Malcolm Baldrige National Quality Award assessment process.[8] It has expanded its focus to the entire workforce development system and, seeing states as "enablers" of local workforce delivery systems, has just launched an initiative to extend its quality efforts to the state level.

Developing Sustainable Market Relationships with Employers

Leaders in all five states emphasize the importance of building sustainable market relationships for engaging employers. Implementing this strategy requires an entrepreneurial mindset, a close connection with employers and the development of inter-firm networks.

Cultivating an Entrepreneurial Mindset. Perhaps the greatest challenge facing systems builders is finding professionals who operate with an entrepreneurial mindset. People working in the system to develop and sell workforce services to private employers must believe in the value of their services and be willing to market them aggressively. Otherwise, employers will not respond. In Massachusetts, the one-stop workforce centers rely on aggressive marketing and networking and often hire individuals from industry. These account managers, who are responsible for marketing to selected industries, are encouraged to identify intensive services that meet customer needs and for which a fee could be charged.[9]

Entrepreneurial approaches that include charging for services provided are not limited to Massachusetts. In 1996, Wisconsin received a Department of Labor grant to test the effectiveness of a fee-for-service approach for one-stop centers that could be replicated around the country. A number of other states—California, Indiana, Missouri and Texas—as well as individual career centers are developing fee schedules on their own as a way to generate income and expand services. Many state workforce managers consider charging fees for service a logical extension of a market-based workforce system. In their view, "If you are providing a quality product, then you can charge."[10] Charging for workforce services does, however, raise questions about which services can be charged for and which ones must be provided free of charge. Fees for service must be

[8]The Baldrige Award criteria encompass seven dimensions: leadership, information and analysis, strategic quality planning, human resource utilization, quality assurance of products and services, quality results, and customer satisfaction. The Enterprise Council has assisted many more PICs in staff training and awareness.
[9]LaPier interview.
[10]White interview.

carefully managed to avoid problems with federal funding sources as well as individual employers. In particular, providers must avoid charging customers for basic services already financed by federal or state resources.[11]

Charging for services is just one example of the entrepreneurial mindset at work. In Michigan, state-level teams of account managers act as ombudsmen to promote employer awareness of the availability of public services that respond to a wide spectrum of their needs. These teams now visit businesses throughout the state, but Michigan is in the process of transferring this function to the local level and preparing its workforce career centers to take it on.[12] As one state official put it, "We try hard to keep a private-sector mindset. It sounds trite, but it's so important."[13]

The Northern Tennessee PIC has created financial incentives for its staff which reflect an entrepreneurial approach. It sets placement wages and placement rate goals for its caseworkers and ties salary increases to attainment of these goals. This approach deserves serious consideration in Texas and elsewhere. In our view, it is the single most effective way of motivating workforce staff to actively develop, market and sell services that respond to employer needs. Staff so compensated quickly develop an entrepreneurial mindset.

Establishing Close Connections with Employers. The most successful employment and training programs are characterized by their close connection with employers. Project Quest in San Antonio, which trains low-income people for high-skill jobs in selected industries, is a mutual-gain enterprise driven by a close collaboration between local employers, project staff and key community partners. Program staff first listen to employers then recruit and train individuals to meet their needs. Since January 1993, 825 participants have enrolled and more than 300 have been placed in jobs at an average hourly wage of $7.80 (ETR, 11-1-95). This was accomplished over a two-year period in a high-unemployment, low-wage economy.

The San Jose Center for Employment and Training, another initiative that focuses on meeting employer needs, has also had strong positive impact on participants' earnings and employment. When training is closely tied to the labor market and well implemented, it is cost effective and delivers returns on investment of 40 percent or more (DOL 1995).

[11]Employment and Training Reporter (ETR), 10-16-96.
[12]Telephone interview with Linda Kinney, project manager of "No Wrong Door," the Michigan one stop workforce development system.
[13]Elaine Woods, deputy director of the Northwest Michigan Council of Governments. (ETR, 7-17-96, p. 884).

These findings were reinforced in our review of the states. Wisconsin is one of the pioneers in integrating workforce services at the local level. Its one-stop centers are, unfortunately, characterized by their wide variation and uneven development across the state. The most advanced, however, have employer services teams whose members act as account representatives and take responsibility for developing reciprocal arrangements with private employers where each learn from the other. Nor is service focus limited to training. Whether these connections are being made effectively depends on local personnel and capacity. While networking is not mandated by the state, account representatives are free to encourage collaborative arrangements of all kinds.[14]

North Carolina, a state long recognized for its aggressive economic development efforts, has offered workforce training as part of its industrial recruitment packages since the late 1950s. Today, the Department of Community Colleges' Industry Services Division provides customized training grants directly to community colleges and holds them accountable for the quality of training services provided to employers. The defining aspect of this approach is the close collaboration between the local community colleges and employers. According to the state director of Employment and Training, quality customer service in which colleges identify—anticipate when possible—and meet employer needs is the key to expanded use of these training services.[15]

Michigan's Economic Development Job Training Program (EDJTP) offers another example of linking public workforce training with private employers' needs. Created in 1993, it has become one of largest state-financed customized training programs in the nation. EDTJP makes grants directly to public and non-profit training institutions that, in turn, work closely with private employers. Programs are developed only after employers have communicated their education and skills needs to the training providers.

EDTJP focuses on training incumbent workers and creating and retaining high-skill, high-wage jobs in industries with large multiplier effects on the Michigan economy. It leverages its limited funds by supporting efforts that build capacity among local education and training institutions and target networks of small firms. For example, the auto industry plans to dedicate a significant portion of a $10 million EDTJP grant to providing ISO-9000 training for its suppliers through a collaborative network.

Currently, EDTJP is giving local workforce development boards responsibility for coordinating EDTJP-funded training as part of a longer-term plan to move funding

[14]Thompson interview.
[15]Telephone interview with R. Scott Ralls, director, Division of Employment and Training, North Carolina Department of Commerce, 10/23/96.

decisions to these boards. In a complementary move, when permitted by changes in JTPA, the state will require that private employers make up 70 percent of the membership of these local boards.[16]

Facilitating Inter-Firm Networks. Workforce leaders in all five states recognize the importance of inter-firm networks, consortia arrangements or industry associations to provide workforce and economic development services to small and medium-size employers. Best organized along industry lines, these groups of affiliated employers facilitate information sharing and planning, allow pooling of resources, reduce administrative burdens and lower training costs for participating firms. Further, they allow local workforce systems to work with employers in groups rather than individually, thereby increasing the systems' efficiency.

Indiana uses industry associations, informal networks, strategic alliances and peer roundtables to strengthen employer involvement in its workforce development activities. The state employs various approaches, including working with existing networks and helping individual employers find potential partners and develop working relationships. For example, Indiana's Center for Entrepreneurship and Innovation provides "best practice" and "how to" information for companies considering forming a network. The state also provides small, highly-targeted seed grants to inter-firm networks through the Strategic Development Fund established in 1989. Once these industry collaborations have demonstrated their value, they are intended to become self-supporting. These collaborations, which require high levels of personal commitment, leadership and organization, have proven easier to start than to sustain (IEDC 1994), and a recent evaluation found that only some activities could be sustained without state funds (IDEC 1993).

The New England Suppliers Institute, a network of large and small manufacturing firms with education and government partners, is another example of an inter-firm network. Paralleling ISO-9000, its mission is to improve customer-supplier relationships between large and small firms and make such relationships the "source of agility, flexibility and cost competitiveness."[17] The Institute is developing a stronger regional customer-supplier base by providing low-cost services to small and medium-size firms. The large firms and government partners mentor small firms, provide them training and best practices in manufacturing and give them opportunities to participate in networks and focus groups.

[16]Stites interview.
[17]Internet information from the Corporation for Business, Work and Learning, New England Suppliers Institute, Boston, MA., March 12, 1997, [http://www.bssc.org/nesi/index.html].

Responding to Employers' Needs

Current practices in the five states emphasize customer choice as the foundation of their market-based workforce systems. Since they consider employers as their major customers, they see responding to employer needs as critical to engaging them in the system. State efforts to achieve this include identifying and meeting employer needs, linking workforce and economic development efforts and enhancing electronic access to information and services.

Identifying and Meeting Employer Needs. A critical first step is to clearly identify and meet employer needs. A market-based system relies on consumers having good information to make rational choices, yet state leaders report that they often have to help employers identify their training needs and that many are under utilizing their current workforces. To remedy this these states are active in pointing out the critical linkage between training, work organization and modernization efforts and helping employers clarify their related human resources needs.

Once needs are clarified and understood by both employers and workforce professionals, the task is then one of responding to those needs—offering solutions to problems. Along these lines, Wisconsin is committed to expanding and better marketing its range of employer services. For example, the Western Wisconsin PIC, with its heavy focus on serving employers, offers a wide range of "employment solutions" which include outplacement services, assessment and testing, employee retention analysis, recruitment, screening and hiring assistance, and customized training.

Massachusetts has created a substantial infrastructure of support for industries, offering worker training as just one of many employer services. For example, the Industrial Services Program (ISP) helps train dislocated workers and works with troubled employers to upgrade their management and production technologies. In 1996, Massachusetts consolidated ISP with its customized training program, the Bay State Skills Corporation, to strengthen links between modernization and worker training.

Massachusetts also organizes employers into networks or industry clusters. Its Manufacturing Extension Partnership creates partnerships among local industry, labor, industry associations and higher education institutions to provide high-quality, subsidized technical assistance to small and medium-size manufacturers. Partnership services fall into four categories: manufacturing productivity, quality improvement, general management and training. Initial assessment and project development are free, and up to 50 percent of total project costs may be covered by the Partnership.

Linking Workforce and Economic Development Efforts. State-financed customized training features prominently in state and local economic development efforts across the nation. North Carolina, along with several other southeastern states, pioneered this approach and continues as a national leader. The state has been among the top three states in new plant locations for each of the last eight years. State officials attribute their success in large part to customized training.

Some local institutions in the state go to extraordinary lengths to make the workforce-economic development connection. Officials from Guilford Technical Community College traveled to Tokyo to learn the skills required by a manufacturer they were recruiting to the state. Their initiative appears to be paying off. A study of 600 recent Guilford graduates found that ten percent were earning more than $35,000 a year, 20 percent had starting salaries of $25,000-$30,000, and only 13 percent were earning less than $10,000 (Wall Street Journal, 11-26-96).

To further promote joint workforce and economic development activities, North Carolina recently opened four Manufacturing Extension Partnership centers to provide some 11,000 small and medium-size employers with specialized training and workplace modernization assistance. This initiative recognizes the importance of small businesses to the state as well as the strong relationship between investments in capital equipment and worker training and increases in productivity.

The other states we looked at take similar approaches. Training 2000, Indiana's customized training program, promotes economic development and employer investment in training and aligns these investments with the state's broader public policy goals. With a current budget of $12 million, it awards grants to manufacturing firms to cover up to 50 percent of training costs. Eligibility criteria for selecting participating employers include the quality of jobs, wages rates, evidence of a historic commitment to training and the level of capital investment. Increasingly, the state combines training grants, tax abatements and tax credits to sweeten its economic development incentives packages. In 1992, the program provided $15.6 million to 211 projects that retrained 49,200 workers and created 11,151 new jobs. Associated private investments that year were estimated at over $2 billion (IEDC 1993).

In all cases, customized training programs are driven by clear economic development objectives; they recognize employers as their primary customers and respond first to their workforce needs; and they are highly flexible. Many are led by "deal makers," individuals with the authority to commit training resources on the spot.

Enhancing Electronic Access. Workforce leaders in all five states recognize the importance of providing employers electronic access to information and workforce services. They realize that private employers must be able to list job openings, solicit applicants, search talent banks, review resumes and access other human resources services without leaving their desks. Small or medium-size employers without in-house capability must have access through industry or trade associations, chambers of commerce, local economic development entities or career development centers. Workforce professionals must also be able to market their full range of services to all employers. All this requires modernizing information systems, building an electronic infrastructure, acquiring computers and gaining access to the Internet.

Though efforts to enhance electronic access are highly uneven across as well as within the states, they are moving in this direction as part of their more visible efforts to establish career development centers. In our view, however, they are focusing too heavily on facilitating access for individuals needing workforce services rather than on developing effective supplier relationships with private employers.

Encouraging the Development of Industry Skill Standards

In the ideal workforce development system skill standards would be the mechanism employers use to communicate their specific workforce needs to education and training providers. As such, they would become the targets for all workforce education and training activities and provide the basis for assessing performance and evaluating results.

Though workforce leaders in the five states recognize the importance of industry-based skill standards in organizing the demand side of the labor market, clarifying employers' needs, improving communications between employers and government, and guiding both public and private training, they have had limited success involving employers.

As with many issues in the workforce arena, the impetus for developing skill standards, credentialing examinations and training certification requirements is coming from government as part of its larger concern with global competitiveness. At the federal level, the 1990 Carl Perkins Vocational Education and Applied Technology Act Amendments established the first performance standards system for vocational education, which emphasizes educational and occupational competence and employment (Sheets 1994). This move generated substantial interest in the development of skill standards among public education and training professionals. The Departments of Labor and Education funded 22 projects to develop national skill standards in selected occupational areas, and in 1994 the Goals 2000: Educate America Act created the National Skill

Standards Board to promote the development of national industry-based standards. The board has funded nine of the original 22 skill standards projects to continue their work.

State-level efforts to develop skill standards are fragmented and uneven, however. Of the five we studied, only Indiana has established a state skill standards board, the Workforce Proficiency Panel. This nine-member business, labor and government group has responsibility for developing skill standards and portable certification for secondary and postsecondary education. The panel has set or validated skill standards for selected occupational clusters in the electronics, business support services, metalworking, printing and health industries. Recently the state was awarded a $300,000 grant by the National Skill Standards Board to develop career pathway models in health care, manufacturing and business management and to demonstrate how industry-based standards can guide training. Thirteen other states, including North Carolina, are involved in this project.

In Michigan, it is the education community that has displayed the most interest in skill standards, largely in response to the Perkins requirements referenced earlier. The state does not fund skill standards activities and is considering further reducing its role in their development. In a related activity, however, the governors of Michigan and Indiana—as members of the Council of Great Lakes Governors—are participating in a nationally funded project to develop skill standards and a credentialing system for the metalworking industries in eight midwestern states, where half that industry is located.

Though most are still in the conceptual phase, state approaches to developing skill standards have certain elements in common. They focus on dominant industries and/or occupational clusters and on entry-level jobs, not career ladders. Though driven by education and training professionals, they recognize both that employer involvement is critical to their success and that that involvement must be voluntary. They tend to broker services through trade associations or employer consortia. They view skill standards as targets to guide educational institutions' curriculum development and training and, therefore, as part of their overall performance management and evaluation systems.

The experience of states to date shows that developing standards and credentialing systems is a costly and time-consuming process and that, for the most part, employers have yet to see the benefit of participating in the process or incorporating them into their human resources systems. Of major concern is the fact that the skill standards movement operates in relative isolation from rapidly developing quality assurance and recognition systems (e.g., ISO 9000 and the Malcolm Baldrige Quality Award), which are increasingly important to American employers operating in international markets. Without a meaningful connection between the two movements, employers will continue to limit their participation in national or state skill standards efforts (Sheets 1994).

According to Charles E. Trott, a skill standards expert at Northern Illinois University's Center for Governmental Studies, slow progress on setting skill standards is attributable to a number of factors which inhibit participation by groups that need to be engaged (i.e., employers, unions and educators). As with other government-initiated workforce efforts, employers are skeptical and hesitate to get involved, particularly if educators are also at the table. While they call for high standards, employers seem more concerned with the associated portability of skills and the potential loss of trained workers. They also argue that their employment needs are unique and a common set of skill standards will not help them. Unions are threatened because they see skill standards replacing their long-standing, competency-based apprenticeship programs. Educators limit their involvement because they believe that if "they (skill standards) haven't been invented by the educators themselves, then they are no good."[18]

Further impeding progress is the unresolved issue of the appropriate role of the states in setting skill standards and certification systems, especially if the focus is on establishing national standards that are broadly accepted by industry and offer maximum portability. What is clear, however, is that, state governments can play a key role in implementing industry-based standards once they are in place by requiring educational institutions to train to established standards as a condition for receiving state funding.

Lowering the Barriers to Employer Participation

States have identified a number of institutional and communication barriers that hinder employer engagement. Officials in Massachusetts, for example, point to the widening gap between employer needs and hiring practices and the services offered by public employment and training programs. Employers have long complained about the number of different government and private non profit agencies knocking on their doors trying to find jobs for participants in their programs, each of which has its own confusing set of acronyms, eligibility requirements and limiting regulations. Employers also complain that involvement with government programs is too cumbersome and that representatives of government do not understand their unique circumstances or needs. As a result, private employers stay away from public employment and training programs and turn instead to temporary staffing agencies.

States' strategies for lowering these barriers include providing technical assistance, streamlining processes for employer involvement and employing financial

[18] Seminar presentation by Charles E. Trott, Center for Governmental Studies, Northern Illinois University at the LBJ School of Public Affairs, University of Texas at Austin, 6/13/97.

incentives. Reducing some barriers would require changes in labor law. For example, the requirement that non-exempt workers receive training only during normal work hours makes training difficult and often too costly, especially for small firms (GAO 1996).

Providing Technical Assistance. States offer technical assistance in many areas of workforce development, ranging from assessing employer needs to designing training curricula to help them complete grant applications for federal or state funding. At present, such activity primarily focuses on engaging private employers in school-to-work initiatives. In Indiana, for example, consultants at the School-to-Work Institute help employers design and implement school-to-work plans and provide training for workplace mentors.

Streamlining the Process of Engagement. State leaders committed to building market-based workforce systems see streamlining service delivery, reducing paperwork and making services more user-friendly as keys to engaging employers.[19] All stress the importance of both understanding that each employer's situation is different and making their participation as easy as possible.

To this end, states are providing innovative, cost-effective ways for employers to access quality services. This is particularly important to small and medium-size employers whose involvement in workforce development services has typically been constrained by the trade-off they face between affordability and quality. The National Alliance of Business has identified five major strategies for cost effective service delivery: learning consortia, walk-in centers, distance learning, computer-based instruction and trained volunteers.

Using Financial Incentives. States and local areas continue to offer wage subsidies such as OJT contracts and tax credits or abatements as incentives to private employers despite negative findings regarding their effectiveness. They do so for two reasons. First, the competition for jobs and tax revenues is simply too intense to abandon them. Second, and equally compelling, elected officials are not willing to assume the political liability of failing to attract new business because financial incentives were not offered.

According to state officials, North Carolina continues to use tax credits for job creation, capital investment and training due, in large part, to competitive pressures from neighboring states which use such incentives extensively. The state has, however, made a fundamental shift in the way it uses financial incentives, offering them as a protective measure, but no longer relying on them as the primary tools for engaging private

[19]Telephone interview with Sean Fahey, deputy director of Finance, Indiana Department of Workforce Development, 10-30-96.

employers. The state's objective in using tax incentives is simply to get firms to look at North Carolina when considering relocation or expansion.[20] As a control measure, North Carolina uses "clawback" language in contracts with participating employers to promote accountability and recoup funds in cases where employers fail to follow through on their job creation and training commitments.

North Carolina is also beginning to target these incentives geographically. The state now ranks counties by average wage levels and reserves the largest incentives for employers locating or expanding in counties paying the lowest wages. State legislation enacted in 1996 provides tax credits for job creation, investment, and research and development. Eligibility criteria require employers in these counties to be from specific categories of industry, create five or more jobs and pay wages that are at least 110 percent above the county average. Employers qualifying for either the job creation or investment credit also qualify for a worker training tax credit which reimburses 50 percent of the costs of retraining incumbent workers (up to $1000 in the most distressed counties and $500 in all others). The worker tax credit has generated controversy, however, and will not go into effect until July 1, 1997, pending review by a legislative commission.

In an effort to respond to the needs of small and medium-size firms, the Michigan Training Incentive Fund, which operated from 1988 to 1991, provided subsidized interest on bank loans to finance worker training. Private financial institutions made the loans independently and terms were negotiated between the bank and employers. Designed to overcome the reluctance of banks to lend to small and medium-size firms, this program was effective leveraging limited public resources. In 1990, Michigan paid $987,047 in interest costs for training loans of $3,485,124. For every public dollar spent, $3.50 in private dollars were invested in worker training. The program was eliminated for budgetary reasons in 1991 (IEDC 1993).

Examples of wage subsidies' not working continue to abound, however. Charles LaPier reported a recent bad experience with a financial incentive for welfare recipients in Massachusetts. The Full Employment Program (FEP), created in 1995, paid companies that hired welfare recipients $1 per hour employed as an incentive. "It was not very successful. Feedback from employers has been that they are trying to hire people without labels. They want the state to help make people job-ready, not offer financial incentives. The incentives offered did not cover the costs of the additional

[20]Ralls interview.

paperwork and associated payrolls requirements." FEP was "the wrong way for the state to go; besides it was also degrading for those individuals who participated in it."[21]

Wisconsin minimizes the use of financial incentives though it does offer participating employers reimbursements for up to 50 percent of the costs associated with youth apprentices they hire. According to one state official, these training grants to employers have been very helpful. The lesson Wisconsin has learned, however, is to use such incentives selectively.[22]

A few other states are using financial incentives in connection with their school-to-work programs. Arizona and Illinois offer income tax credits tied to varying percentages of students' wages, while Oregon offers partial reimbursements for associated training expenses (NGA 1996). Maryland has established a school-to-work employer incentive fund to encourage employer participation. Portions of the state's school-to-work implementation grant are set aside to create incentive pools both at the state and local levels. These funds are made available to intermediary organizations such as industry consortia, trade associations and labor organizations through a competitive process. They can be used to design industry-specific work-based learning activities; integrate curricula, skill standards and performance assessments; provide materials and equipment; and develop strategies for further employer recruitment.

There is a kind of schizophrenia apparent as these states make the transition to the new way of doing business. On the one hand, policy makers recognize that providing quality services is the best approach to engaging employers, but on the other, they continue to offer financial incentives which have been proven largely ineffective. There is, however, general agreement on the importance of providing quality services and treating employers as their principal customers. All five states are committed to following the best practices of TQM and ISO 9000 to better serve their employer customers as well as students and workers seeking labor market assistance.

[21]LaPier interview.
[22]Telephone interview with Mary Thompson, section chief, Bureau of Performance Outcomes, Division of Workforce Excellence, Department of Workforce Development, 10-21-96.

Major Findings

The major findings from our research—the literature search, review of current employer engagement efforts in five states and interviews with Texas employers—are summarized here. Together they lay the foundation for the two sections that follow: a new approach to engaging employers and a proposed action plan for Texas.

1) Traditional approaches have not worked.

Traditional approaches to engaging private employers in public job training and employment programs have had limited success.

Putting employers on state and local workforce advisory committees and policy boards has not engaged them. When asked by elected officials, employers have agreed to serve, motivated by a sense of obligation rather than any expectation of economic benefit. Few view their participation as making any significant difference to workforce skills or business competitiveness, so they have never assumed ownership of the programs or workforce systems they are involved with. Typically, business leaders and decisionmakers have shied away from personal involvement and sent subordinates as proxies.

Wage subsidies such as OJT contracts, targeted tax credits and tax abatements for hiring certain population groups have been largely ineffective. With few exceptions, these kinds of financial incentives have had little to no effect on employer hiring decisions and do not produce the anticipated net job gains. Instead, they cause employers to substitute one group of workers for another and produce windfalls to employers for doing what they would have done anyway. Further, they stigmatize the individuals who qualify for the targeted subsidies, especially when those workers also participate in a public job training or employment program.

Nor, are most employers attracted by targeted wage subsidy or tax incentive schemes. The amount offered relative to the cost of recruiting and training new employees, particularly those with labor market deficiencies, is simply too small to make a difference. In these cases employers typically hire only a few individuals as a gesture to fulfill their political and social obligations to the community. Not surprisingly, employers do not expect those hired under these circumstances to contribute much to their businesses. This form of employer participation is characterized as "token in scope and difficult to sustain" (McPherson 1997, p 24), a far cry from true engagement.

Wage subsidies are still used. Regardless of the research and most employers' negative reactions to targeted wage subsidies, the federal government and many states continue to use financial incentives to entice employers to hire targeted population groups. No doubt tax credits and other financial gimmicks will be used now to encourage private employers to hire welfare recipients. While well intentioned, they are not likely to get the desired response.

2) Clashing cultures impede employer engagement.

Private employers and public workforce professionals live in two different worlds. The forces that drive them, the rules they work under and the measures they use to determine success are very different.

Shareholder returns drive the business world. In the business world, the driving force is the maximization of shareholder returns—sales, profits and returns on investment. Employers face market pressures and the constant imperative to be more competitive. Their focus is short-term and immediate—responding to customer needs, facing challenges, solving problems and getting results. They tend to think in terms of interrelated systems instead of discrete programs or projects. Rather than wage subsidies or tax credits from government, they want quality suppliers that respond to their immediate human resources needs.

Regulations rule the public sector. Workforce professionals, in contrast, are driven by the laws, rules and regulations that govern the programs they administer. Always subject to audits, they are accountable for the dollars entrusted to them. While they fight over turf and compete for control over programs and dollars, they do not face competitive market forces. They have clients rather than customers and do not depend on them for survival in the same way private employers depend on customers. They function as public monopolies where survival is more closely linked to satisfying federal and state funding sources than meeting clients needs. They also tend to operate with a social welfare orientation and appeal to employers' sense of social responsibility to find jobs for their clients. In most cases this approach generates a charity response that meets neither the needs of employers nor clients served by the system.

Differences block communications. Coming out of different environments and bringing dissimilar perceptions and experiences to the table, employers and public workforce professionals speak different languages. They are suspicious of each other's motives and intentions, which makes it difficult for them to communicate and work together to solve problems.

Public program staff are not motivated to market services. One of the most telling observations of the private-public sector differences came from a West Texas employer who said of his experiences with representatives of public job training and employment programs, "They don't act like they are really trying to sell me anything." The behavior this comment refers to is understandable because program staff have no financial stake or incentive to market and sell services. They get paid regardless of the number of contacts they make or jobs they find for clients. There are no rewards for doing more work better. We must build financial incentives into the service delivery system to spur action beyond doing what it takes or putting in the hours. For example, employer service representatives might receive a base salary plus a commission that rewards them for actively marketing quality human resources services. They should be paid for results (e.g., sales, income generated), not for hours worked or years of service.

3) Employers hold negative images of government.

Most private employers' experience with government has been limited to paying taxes and being regulated by one or more government agencies. They are apprehensive when government offers to help and skeptical of job training and employment programs that focus on the unemployed or economically disadvantaged. Particularly, they are offended by the way work search requirements for drawing unemployment insurance benefits can be satisfied. They react strongly when recipients show up saying, "You don't have any work, do you?" and then ask them to sign a form as evidence that they are job hunting.

The new workforce system and the services it markets to employers must be clearly separate from workers compensation, unemployment insurance, traditional job training programs and government programs in general. Otherwise, the negative image employers have of these programs will carry over. Only by providing quality services that exceed their expectations will we change employers' minds about government job training services. In the meantime, we must separate and market the state's new workforce system independently.

Careful marketing is crucial. The states we looked at see aggressive marketing and creative outreach as essential for improving the image of public workforce efforts, engaging employers and making their systems work. Where governors have adopted workforce development as a clear priority and championed the cause personally, improvements are coming, but all agree that quality services hold the key to employer engagement. They are concerned that their marketing efforts not outstrip the capacity of the system to meet employers' needs with appropriate services and in a timely manner because, in the final analysis, success is still the most powerful marketing tool known.

4) Employers rely on temporary staffing agencies.

Regardless of size, almost all employers are using temporary staffing agencies and are generally pleased with the services they receive. This trend is probably due to a number of factors: employers' hesitancy to use government programs, their past experiences with employment and training programs in particular, and the fact that they have found quality suppliers whom they trust. Employers recognize that they are, in essence, paying for these services twice (i.e., they pay taxes for public services in addition to paying the temporary staffing agencies), but they repeatedly state they are willing to do so because of the difference in quality.

5) Emerging market-based workforce systems offer promise.

The states we looked at—Indiana, Massachusetts, Michigan, North Carolina and Wisconsin—are developing demand-side, market-based workforce systems that are much more responsive to employer needs than traditional job training and employment programs. "The hallmark of a demand-side, market-based system is a strong consumer role in both the provision and production of workforce preparation services" (Sheets and Stevens 1990, p. 8). This mandates a radical recentering—in thinking and practice—on market principles of consumer choice; performance management and continuous quality improvement, and provider competition and performance sanctions (Sheets 1992).

Leading states take a broader view of workforce services. Each of these states operates with a broad definition of workforce services that addresses both the supply and demand sides of the labor market as well as information, job search and other connecting activities that make labor markets work more efficiently. They are building systems that offer universal access and respond to a variety of customers. They are improving services by emphasizing an wide array of employer services, multiple access points and integrated networks of career centers which support individuals' lifelong learning. They are also taking more entrepreneurial approaches to marketing and delivering services, especially to private employers.

They commit to building integrated delivery systems. Though they are taking slightly different routes, each of these states is committed to integrating workforce services and building local capacity to respond to employer needs. By consolidating programs and funding sources at the state level, expanding and linking different kinds of employer services and marketing this wide array of services directly to employers, they are trying to better meet employers' diverse human resources needs. They are establishing clear points of contact with the system and streamlining access for easy use. They are forcing providers to compete and building management systems that reward and sanction performance as appropriate. Further, they are linking public workforce services with business modernization efforts to increase productivity and competitiveness. Quite simply, these states are engaging employers by making themselves more useful to employers.

They connect workforce and economic development efforts. Increasingly, these states are integrating their workforce and economic development efforts. State-financed customized training is now widely recognized as a key component in the incentives package for business relocation or expansion. It is also the linchpin that holds the two systems together because it allows deal makers to make immediate commitments to training that may later be paid for from other job training funds. In all cases, these programs are driven by economic rather than social welfare objectives, recognize employers as their primary customers and are highly flexible and responsive.

While sizable commitments to customized training is relatively new in Texas—the Smart Jobs Fund was created in 1993 and the Skills Development Fund in 1995—private employers are well aware of their existence. Despite Smart Jobs' time consuming and bureaucratic application process, employers view both programs as helpful and they are favorably disposed toward them.

An entrepreneurial mindset characterizes these systems. While these market-based workforce systems are still in their infancy and their development is highly uneven across the states, the most advanced systems are characterized by an entrepreneurial mindset which is customer-driven, focused on providing quality services and making continuous improvement. This represents a profound cultural change from traditional employment and training programs. The new systems' state and local leaders are thinking in terms of developing, marketing and even selling services in response to customer needs. They are creating business-friendly employer services units staffed by account representatives or service brokers and recruited from industry who can relate to employers as peers, thereby communicating and working with them more effectively.

They commit to continuous improvement. Each of these states is committed to making continuous improvements in the quality of their workforce services, not only to better serve their customers but also to achieve the desired performance from their systems. They recognize that moving to total quality management processes and ISO 9000 certification are ways to improve overall service quality and enhance public confidence. Since the language and practice of continuous improvement is now standard in the private sector, incorporating them into public workforce systems also provides a means to better communicate and connect with private employers.

6) Third party intermediaries, networks and consortia arrangements hold promise.

Given the negative image of public job training and employment programs, the new workforce systems may need to channel employer services through third-party organizations with which businesses are more familiar and in which they have more trust. Such organizations have credibility where government programs do not. They can provide effective mechanisms for sharing information and expertise and marketing and providing services to private employers, particularly small and medium-size firms.

Several third-party options have been used with varying degrees of success. Some public initiatives have formed joint ventures with private for-profit temporary staffing agencies or with established organizations providing business modernization services. Others have worked with business or industry associations, respected business schools or other organizations private employers know and respect. Still others have worked with one or more employers in an industry to form either a formal or informal network that meets their workforce and/or business modernization needs.

Texas might consider supporting the formation of such industry networks, particularly for small and medium-size firms and providing financial assistance for their start up. The state could gradually reduce its support once the businesses have experienced benefits of working together and become willing to maintain the networks themselves, a direction the Wisconsin Regional Training Partnership in Milwaukee seems to be headed.

7) Targeting workforce services is important.

Workforce professionals must recognize and accommodate the fact that employers—even those in the same industry—are not all alike. Their human resources needs, hiring practices and training methods vary based on their industry, size, the approach they take to remaining competitive, and the labor market in which they operate. It is, therefore, inappropriate to generalize about employers' human resources needs or the most appropriate ways to meet those needs. To be effective, services must be targeted to specific industries and to individual employers.

Further, local workforce systems, with their limited funding, cannot be all things to all employers. They must target and leverage their available funds by making strategic investments in industries and employers in those industries offering the greatest return. As one major employer put it, "Local workforce systems need to score a touchdown or two with one or two private employers. Then they will have employers touting their services to other employers and all the business they can handle."

Small and medium-size employers need special services. Major employers have the resources to fend for themselves. Small and medium-size employers, on the other hand, need help understanding what is available and how to best access information and public services. Many don't even know they could use some help (i.e., how to get more competitive and what the related workforce requirements are). Many can't take the time to evaluate their situations and those that can are often unable to afford the technological and human resources investments required to become more competitive.

Sheer numbers make serving individual small and medium-sized employers impossible. Workforce, and for that matter, business improvement initiatives could be organized through trade associations or loose consortia to minimize the state's burden and share the costs of providing services among many firms. Success breeds success, so telling stories of enhanced productivity and competitiveness gained through these arrangements would help small employers by fostering the growth of new trade associations and consortia.

8) A personal approach makes a difference.

It is imperative that the new workforce system develop and maintain personal relationships with those individuals who do the hiring, especially for employers in targeted industries. Small and medium-sized employers especially want to know the person making referrals to them and want that person to know their business and the type of workers they look for.

9) Employers lack awareness and good information.

The Texas employers we interviewed are generally aware of state workforce reform efforts but have little information about what the changes mean for them or how they might connect with the new system. Small and medium-size employers are so caught up in trying to run their businesses and maintain a competitive edge they have little time to sort through human resources services they hear about, private or public. Those who were aware of the changes coming in Texas are willing to give the new system a chance despite negative experiences with traditional job training and employment programs.

A New Approach to Employer Engagement

Engaging Texas employers will require building and nurturing trusting relationships between them and the public workforce system. These relationships must be based on economic rather than social welfare objectives. They must also be developed and maintained locally since that is where employers hire most of their workers and workers get the education and training they need to become productive employees.

Providing quality services is the key to breaking with the negative image of past employment and training programs and building these new relationships with Texas employers.

Putting Employers First

The approach suggested here puts employers first. It identifies private employers as the primary customers of the state's workforce system and places heavy emphasis on developing, marketing and selling a variety of labor market services to meet their human resources needs.[23] It offers them the lead role in the system but not exclusive control.

Successfully implementing this new approach requires a radical departure from past practices. Cosmetic changes or the introduction of superficial techniques will not suffice. A fundamental transformation must take place in the way those who design and operate the new system view the development of the state's workforce (e.g., initiating the service process from the perspective of employer needs and moving to a customized approach with just-in-time production).

The potential rewards from integrating workforce services and putting employers first are great. This approach can create a "win/win" situation for everyone involved.[24] The appropriateness and quality of workforce services can improve quickly for both employers and residents. Even more important, over time, a better understanding of labor markets and employer needs will emerge. Designing and marketing services to meet those needs will lead to new relationships between the evolving workforce system and Texas employers that will pay handsome dividends for all.

[23]As used here, *marketing* describes activities designed to raise awareness, build interest and create demand. It includes both public relations (non-paid) and advertising (paid) activities directed at targeted audiences. *Selling*, on the other hand, involves the direct one-on-one interactions with potential customers which follow up the system's marketing efforts.
[24]For more detailed discussion, see pages 201-204 in Steven Covey's book *The Seven Habits of Highly Effective People* cited in the bibliography.

Providing Basic Services to All Employers

When planning and marketing employer services, local system designers must not lose sight of the fact that funding for them comes from a variety of federal and state sources, each with its own set of rules and regulations.[25] As long as this is the case, every local workforce system in the state has to offer all employers a standard set of services that meets the aggregate requirements of the various funding sources (e.g., basic labor exchange functions, including services to unemployment insurance claimants and veterans). Though mandatory, providing these services creates opportunities to offer other, more specialized labor market services to employers. Accordingly, these basic services should always be high quality and provided in a professional and timely manner.

While providing basic services well is important, local systems must set their sights higher if they are to effectively meet employers' human resources needs and access quality jobs for residents.

Targeting Employers for Specialized Services

A local workforce system can maximize its limited resources by identifying those industry groups most important to its area's economic future, targeting the key employers within them, and designing and marketing a set of specific services that meet their unique needs.

Key employers in a targeted industry are those offering the best current and future employment opportunities. They are high-skill, high-wage enterprises which provide good fringe benefits, including health insurance; incorporate well-defined occupational areas offering clearly defined points of entry, identifiable career paths and good prospects for advancement; and make sizable investments in further training for their front-line workers.[26]

Targeting employers in large and growing industries is critical if scarce workforce resources are to contribute in any significant way to fostering the economic growth of an area and raising the standard of living of its residents.

[25]The primary funding sources for employer services are the Federal Unemployment Tax Act and the state's Smart Jobs and newly created Skills Development funds. To a lesser degree, JTPA and other federal workforce programs funds may be used to support employer services, depending on how such services are defined and targeted.

[26]The definition of a high-skill, high-wage employer is not absolute. It will vary from area to area across Texas depending on differences in wage rates, industrial composition, employer size and other variables. The emphasis on high-wage, high-skill jobs is intended to push local workforce systems to make sizable investments in training only for jobs that offer the highest possible return.

Depending on the size and complexity of an area's economy, careful targeting may result in the local system's initially developing and marketing specialized labor market services for only a few key employers in two or three industries. Beginning slowly is prudent. It takes time to gain the experience, acquire the technology and develop the capacity to operate on a broader scale.

Conducting Market Research

Once employers in a targeted industry are identified, the next step is to ask two questions. First, do these employers have specific human resources needs that are not being adequately met by current providers? (In other words, is there really a market for additional workforce services?) Second, do these needs fall within the service capabilities of the new workforce system? Answering these questions requires one-on-one conversations with employers and additional in-depth market research as well as an initial determination of the kinds of high-quality services (beyond those required by federal or state law) the local system can offer and actually deliver.[27] If the answer to both questions is *yes*, then local operators should identify or develop a set of services that meets these employers' needs and begin to actively market and sell them to the targeted employers.

Developing Marketing and Sales Strategies

To be comprehensive, a local workforce system's marketing and sales strategy must include a number of elements: establishing an identity among local employers, especially those targeted for specialized services; making direct contacts with these employers; narrowing or expanding the effort depending on response; and following up with possible solutions to the problems identified by interested employers. What's important is that employer services staff market solutions to needs and problems, not a rigid set of predesigned services.[28] Staff members are no longer simply trying to place the graduates of special programs serving population groups with labor market problems. They produce and market what sells rather than market what they produce.[29]

[27] Any such determination of service capability should include those employer services that can be provided by the local workforce system itself as well as any that might be arranged for employers through the system. This assumes that local systems will broker as well as provide direct services to better meet employer needs.
[28] Covey makes this distinction in *The Seven Habits of Highly Effective People*. He says, "The amateur salesman sells products; the professional sells solutions to needs and problems."
[29] Here I am paraphrasing an April 1996 statement by Guy Shields, vice president for Human Resources at Wilsonart Inc., describing how his firm approaches the market.

The final step in any effort to design and market specialized services is to continually assess results and make necessary adjustments. Strategies must be reviewed regularly and revised as needed to reflect the inevitable shifts in economic conditions. It is also wise to reassess the local environment after any external shock to the economy such as increased foreign competition, new technologies or a shift in consumer demand which significantly impacts employment opportunities.

Meeting Employers' Education and Training Needs

From time to time in the process of developing, marketing and selling services to employers, local operators will identify labor shortages that seem to warrant significant public investments in education and skills training.[30] In such situations, staff should verify and "market test" these shortages before making any such investments. This will ensure that the labor shortage is real—employer needs are not being met and individuals with the requisite skills are not already available for work but simply unaware of the existing job opportunities.

It is this demonstrated reality, i.e., employers' inability to find qualified applicants, that justifies workforce education and training. The need for training should emerge from the demand side of the labor market—from employers—as a response to labor shortages that cannot be met by less expensive alternatives (e.g., labor market information). If a need cannot be clearly demonstrated, public workforce dollars should not be invested.

When there is a clear need for education and training, local operators should first determine if other employers in the same industry share similar needs. If this is the case, they can maximize their efforts by fostering the creation of informal associations of interested employers to develop industry-based training, rather than focusing on the training needs of a single employer.[31] These employer training committees should be led by one or two key employers in the industry who recognize the need and are willing to include their competitors in planning, overseeing and, when necessary, providing a common training curriculum that benefits them all.[32] In cases where education and

[30]The education and training envisioned here are postsecondary, non-baccalaureate programs—normally one to two years beyond high school—that lead to an associates degree or a recognized certificate.

[31]The underlying assumption here is that education and training requirements for similar occupations in the same industry will be highly correlated. Depending on the industry and/or occupation, as much as 70 or 80 percent of training might be provided in common, leaving it to individual employers to meet their own unique skills needs through on-the-job training once an individual is hired.

[32]Our first preference is to use proven education and training institutions rather than duplicate existing capacity. The option of allowing an employer in an industry or occupational area to function as the trainer

training needs cut across rather than fall within industries, the employer training committees should be organized along occupational lines.[33]

Critical to establishing successful training committees is that they be controlled by employers rather than by civil servants, educators or job training professionals. Employers must lead and control the committees, and they should receive technical and logistical support from the employers services component of the local workforce system.

Working with groups of employers may take more time initially, but a number of benefits will accrue from such an approach. First, over time, the local workforce system, training providers and employers themselves should realize significant administrative and operational efficiencies by offering a single training program. Second, this approach increases the likelihood that training graduates will find jobs by tying education and training to labor market demand. Third, taking an industrywide or occupational approach will also provide training that is ultimately more beneficial to trainees because it is portable and increases their long-term employment prospects. Fourth and finally, this approach will protect the local workforce system and training providers from accusations that public funds are financing firm-specific training that should be paid for by those employers directly benefiting from it.

Developing Economic Relationships with Employers

If carefully designed and professionally staffed and managed, the approach outlined above will lead to new relationships between the emerging workforce system and Texas employers which are based on economic rather than social welfare concerns. These can best be described as "quality supplier/purchasing agent" relationships, with the local workforce system serving as one of several suppliers of labor market services and employers as the purchasing agents. These new relationships acknowledge economic self-interest as the primary motivation of private employers and recognize the importance of offering quality services that help them achieve their key business objectives.

In this context, a local workforce system does not try to persuade employers to participate in any one program or service to help out a particular disenfranchised group. Employer services staff do not offer tax credits or wage subsidies to induce hiring. Instead, they market high-quality services, which, among other things, might include

for all employers in the group is intended to accommodate those special situations when neither public nor private providers respond to the identified need in a timely fashion.

[33] The strategy of organizing employers in training committees and providing training along industry or occupational lines is not incompatible with the short-term, customized training for individual employers financed by the state's Smart Jobs and Skills Development funds.

recruiting and training qualified applicants for employers with current or projected job openings, assessing current workers' skills, conducting task analyses and training incumbent workers.

The quality of services the local system provides and the level of trust that develops between staff and employers will determine the nature of the relationship that emerges. Carefully nurtured, these relationships which are based on economic realities, will open the way to adding services for targeted employers and expanding the employer base as time and resources permit. This, in turn, will open access to otherwise unavailable jobs for local residents using the system's services.[34]

A note of caution: Do not underestimate or summarily dismiss the approach suggested here as one already taken. It is fundamentally different from the conventional job development and placement efforts of current workforce programs. Moreover, it encompasses far more than better coordination between public workforce and economic development initiatives. Local delivery systems will continue to respond to employers contemplating a move to their area, but this is only a small part of their mission. The vision of Texas' new workforce system gives them a broader purpose—building ongoing economic relationships with employers that make local businesses and residents more productive and more competitive.

[34]For more details on this approach to employer engagement, see "*Designing a Local Workforce Services Delivery System*" cited in the bibliography.

An Action Plan for Texas

The plan that follows is based on the assumptions that Texas is committed to building a market-based workforce system and decentralizing policy making for workforce services to local areas. Further, it assumes that the new system will operate with a two-pronged strategy: providing information and minimal labor market services to all employers while also targeting high-skill, high-wage employers in specific industries for specialized services that make them more competitive in the global economy.

This plan adheres to the new approach to engaging employers described earlier. It recognizes and respects the fact that employers don't engage unless it is in their economic self-interest. It also acknowledges that the new workforce system is but one of many suppliers of human resources services to Texas employers. Like any supplier, to succeed the system must first identify employers needs and then develop and market quality services that respond to those needs.

The challenge in engaging employers is to give them enough control that they assume ownership and help build a workforce system that serves their economic interests without giving them exclusive or absolute control. The interests of workers and the general public must be protected. While we believe employers should have a majority on the state council (TCWEC) and local workforce boards, we know there must be adequate representation of workers and the general public at both levels to ensure serious consideration of their views.

Without a strong role private employers are not likely to engage. The result will be Texas employers—small and medium-size ones in particular—which are less competitive in the global economy than they have the potential to be. Employers, workers and taxpayers will pick up the tab for this failure in the form of decreased productivity, slower economic growth, greater income inequalities and poverty, more child abuse, more family dissolutions, higher incarceration rates, and a lower standard of living for all of us.

The plan proposed here focuses on things state government can do to promote employer engagement. It is organized in four parts which must be implemented simultaneously. Part 1 has to do with raising awareness of and building a positive image for the new system among its customers, especially the employer community; part 2 with strengthening the state council and local workforce boards and making them the driving force in the state's workforce system; part 3 with supporting the development of local capability to provide quality employer services; and part 4 with encouraging employers to set skill standards and certification and program certification requirements to guide public education and training efforts.

Implementing this plan will begin the process of engaging employers but even that does not guarantee success. Success will come when the workforce system responds to the human resources needs of private employers by delivering quality services in a timely fashion at a competitive cost. The state must make certain upfront investments to ensure that capability among the 28 local workforce boards—specifically their career centers and employer services components.

Note that targeted wage subsidies—OJT contracts and tax credits—or tax abatements are not included in this plan. Our research found these schemes to cost more than they deliver and we strongly recommend they not be used either to engage employers or promote the employment of any particular population group (e.g., welfare recipients, at-risk youth, dislocated workers, etc.).

Part 1: Raising Employer Awareness and Creating a Positive Image

1.1 Hire a consultant or firm to develop a marketing campaign with statewide and local components which "rolls out" your entire product line (i.e., the new workforce system and the services it will offer). Designed to raise awareness, build interest and create demand, this campaign should include both public relations (non-paid) and advertising (paid) activities directed at targeted audiences. While the statewide component raises community and employer awareness in a general sense, the local marketing component should focus more directly on key employers in targeted industries. Obviously, the two marketing components should be complementary, much like those of a franchiser and franchisee in the business world. Though without local components, statewide marketing campaigns that immediately come to mind are those of the Texas Lottery Commission and the Texas Department of Transportation's effort to promote tourism. Both should be explored.

The marketing campaign should communicate a clear vision of the new system and the services it offers to consumers—especially to employers—and incorporate a slogan and logo that define the workforce effort and cleanly separate the new system from traditional job training and employment initiatives.

The campaign might include such activities as press briefings and editorial board meetings, paid advertising spots as well as public service announcements, presentations to community groups and business associations, inaugural ceremonies, facility tours, etc.

It should lay out a time table and incorporate the development of press packets (press releases, speeches/remarks, fact sheets, backgrounders and Q&As) as well as collateral materials which can be used as marketing and sales tools (brochures, pamphlets and other handouts).

Needless to say, timing is critical. Local marketing efforts must not outstrip an area's ability to respond (i.e., the development of effective boards and local delivery systems capable of serving their customers). They must not promise more than a local area can deliver.

1.2 Put implementing the campaign up for bid (i.e., managing the process, organizing events, developing materials, etc.). This way you will be able to compare apples to apples and base the award of your contract on price, experience and reputation. (It may prove more efficient to contract with several firms or agencies, one that coordinates the campaign statewide and handles the statewide component and others, local firms, which implement the campaign in their area.)

1.3 Create the Texas Business Roundtable, a "blue ribbon" group of no more than 12 to 15 members, to focus statewide attention on workforce competitiveness issues for the 21st century. The roundtable—modeled after the National Business Roundtable in Washington, D.C., and similar groups in several other states—should be organized and controlled by Texas businesses and charged with studying major workforce issues facing the state and making policy recommendations to state government. Similar to the Governor's Business Council, this group would have a specific workforce focus.

1.4 Create the Texas Workforce Association, a statewide association of employer representatives serving on the state council and local boards as well as any other interested employers. The chairs of the local workforce boards would serve as the nucleus of this association. The association should be separate from any government agency or association and could be staffed by an existing statewide business association. Supported by the dues of its members, the association would be independent and have the freedom to lobby on their behalf.

1.5 Provide ongoing training, information and technical assistance to employer representatives on the state council (TCWEC) and all local workforce development boards. These volunteers need to be better educated about the environment in which they function, their authority and responsibilities, and the opportunities they have to restructure the way public workforce services are planned, delivered and evaluated in Texas. To fulfill their role as change agents, they need to be better equipped to function effectively on public boards and avoid being captured by their staffs. This training should not be done by government bureaucrats either at TCWEC or TWC but by a private consultant or firm, maybe under the auspices of a statewide business association.

1.6 Fund a statewide business association to promote the new workforce system among Texas employers and make them aware of the new workforce systems the services it offers private employers. (This ongoing promotional effort is part of the state's larger marketing campaign described in 1.1.)

Part 2: Strengthening the State Council and Local Workforce Boards

2.1 Restructure TCWEC to increase private employer participation. The number of employer representatives should be increased so they constitute a majority of the state council. An employer representative should serve as chair, and the council should have the authority to hire staff with expertise sufficient to carry out its duties and pay salaries commensurate with those in the private sector. Council should select its own staff.

Employers on TCWEC should represent the diverse business interests of the state. Specifically, the mix should include several of the large well-known employers which have responded to stiff competition in global markets by restructuring themselves as high-performance organizations, two or three employers from new and rapidly emerging industries, and one or two employers representing the views of small and medium-sized businesses. Employer representatives should be top-level managers—chief executives, chief operating officers or human resources managers, not government relations personnel.

2.2 Vacancies on local workforce boards should be used to bring them the same mix of employer representation. The state's interest in beefing up the caliber of employer representatives on these boards should be formally communicated to the appropriate chief elected officials, local chambers of commerce, industry associations and local workforce board chairs by the governor himself. TCWEC and the TWC should provide information and guidance to local officials to support this effort, including some general criteria that board members should meet.

2.3 Local workforce boards should be officially encouraged to structure themselves as private not-for-profit entities and separate themselves from local government. This is the only way can they ever attain equal partnership in governing and managing local workforce systems. Like the state council, they must be able to hire their own staff and pay salaries commensurate with the private sector in order to attract and retain high-quality professionals.

2.4 The state should further restructure TCWEC and local workforce board membership to better reflect the views of the new workforce system's customers—employers, workers and students of Texas seeking workforce services. Denying membership on state and local boards to state agencies and education and training providers would put the control over the new system in the hands of its customers and add credibility to the policy making process. Such a move would require seeking a waiver of federal JTPA legislation and lobbying Congress to keep provider organizations off state and local boards in any workforce reform legislation it passes.

2.5 After the above steps to strengthen state council and local board membership have been taken and these bodies have acquired the professional staff they need to carry out their responsibilities, the state should promulgate and support a policy that makes them the drivers of the state's workforce system. This policy should clearly established them as the strategic planners, policy makers, overseers and evaluators of all workforce development services in Texas.

Part 3: Supporting the Development of Local Capacity to Provide Quality Services [35]

3.1 Adopt and promote the approach to employer engagement outlined in this paper by funding local workforce boards to develop, market and sell services to private employers. In essence, the state should provide funding to operationalize the employer services units of local service delivery systems mandated in state law. This could be done by formula allocating employment services dollars to local boards consistent with state law, formula allocating the bulk of Smart Jobs and Skill Development Fund dollars to local boards, using the governor's employment services discretionary account and seeking waivers to use a portion of JTPA and other federal funds to provide employer services. In time, revenues from selling services will generate additional financing.

3.2 Support local efforts to recruit and provide quality training for employer services staff, particularly those professionals marketing and selling specialized services to employers in targeted industries (e.g., how to relate to private employers; the nature of the job of employer services broker; how to find the resources and services to respond effectively to employers). These professionals should be hired from outside the

[35]The items listed here relate directly to the issue of engaging employers. There are many other things the state should be doing to develop local service capacity and ensure quality. For examples, see "Designing a Local Workforce Services Delivery System," pages 78-84.

workforce bureaucracy and compensated, at least in part, on the basis of business generated.

3.3 Develop and disseminate techniques for identifying and assessing employer needs. These assessments are critical precursors to developing and marketing employer services in local labor markets across the state.

3.4 Support local efforts to market and sell specialized services to private employers. Local marketing efforts should dovetail with the larger statewide marketing campaign described in 1.1 and be directed at employers in locally targeted industries. These efforts should emphasize an employer-to-employer approach followed one-on-one interactions between employer services staff and potential customers. This requires scoring with a few employers and having them champion the system and its services to their peers. This is the only way to influence individual employers and penetrate employer groups, which tend to be extremely peer conscious.

3.5 Support local efforts to target specialized employer services by industry and encourage the use of industry associations or consortia arrangements to provide workforce training, especially for small and medium-size employers that cannot afford to make independent investments in training. Specifically, this would involve providing "seed grants" for forming industry training committees to jointly identify needs, set standards and oversee the quality of training provided. Public funds are necessary to demonstrate the value of a joint approach to training, but these grants should require some industry match. The public contribution should decline over time, three years perhaps, guaranteeing that these associations or consortia continue only so long as they are valued by participating employers.

3.6 Encourage and support development of joint ventures with third-party intermediaries to market, sell and deliver workforce services to private employers. Potential partners include any organization employers already recognize as quality suppliers. Under such arrangements workforce services could be offered alongside a range of other business modernization services designed to make employers more competitive. Joint ventures would both leverage limited public training funds and avoid the stigma associated with government job training and employment programs

Entering into joint ventures with temporary staffing agencies respected by different industries is worth exploring. So, too, is joining with broader business modernization efforts to assist small and medium-size businesses making the transformation to high-performance work organizations. A model for this is the Texas Manufacturing Assistance Center, which provides technical assistance to small manufacturers and operates out of the Texas Department of Commerce. The state should use discretionary funds to research the use of such intermediaries, support local demonstrations of the more promising approaches, track their progress, and share the successes throughout the state.

3.7 Require local boards to (1) include customer satisfaction feedback loops in their local management information systems and (2) continually evaluate their services by tracking repeat use and/or the number of employers willing to pay for some portion of or all of the services they receive. Both requirements constitute an essential part of any commitment to the continuous improvement of services.

3.8 Work with local boards to identify successes with individual employers and ask those employers to help market services to their peers. Success stories are crucial to local marketing and sales efforts.

3.9 Identify and disseminate local "best practices" and success stories throughout the state. These should be exemplary cases where private employers have used the local workforce system to retrain their front-line workers or to recruit, screen and hire qualified applicants and can share news of demonstrable results.

3.10 Take the opportunity provided by state reform to develop a fresh identity for workforce services. Encourage and support local efforts to establish identities separate and apart from their predecessor agencies and programs, TCWEC, the TWC or any other state agency. Local systems should be able to take on their own local identities and still indicate their affiliation with the statewide system (e.g., Gulf Coast Careers—an affiliate of the Texas Workforce System.)

Part 4: Supporting Employers' Efforts to Develop Industry Skill Standards

4.1 The state should support the development of industry-based skill standards, credentialing exams and program certification requirements for broad occupational clusters, starting with those that require post-secondary training but less than a four year college education. Such standards, voluntarily set by employers, would help them clarify their own needs, communicate their education and training expectations to the workforce system and individual service providers, and articulate job requirements to prospective applicants. These standards would also better focus public and private training investments if used to determine types of occupational training offered, guide curriculum development, and certify education and training providers and their programs.

To this end, the state should support the newly established State Skill Standards Board in its effort to organize voluntary industry groups to validate existing standards or develop new ones. The board needs high-quality private employer and labor appointments, an independent staff and the resources to do its job, namely financial support to underwrite staff salaries and a few initiatives to put standards and certification requirements in place for occupational clusters in targeted industries. To ensure independence and objectivity, staff to the board should be separate from and independent of any state education or workforce agency.

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Appendix

Center for the Study of Human Resources
University of Texas at Austin

EMPLOYER INTERVIEW GUIDE

Project Description:

The purpose of this project is to identify the best ways to promote employer engagement in Texas' new workforce development system. This system is employer-driven, designed to provide quality products and services that meet employer needs. This interview guide is intended to gather employer perspectives in four areas: (1) hiring and training practices; (2) what skills and behaviors employers look for in a "qualified applicant;" (3) past experience using public employment and training programs; and (4) conditions under which employers would be willing to use services of the new workforce system.

Assurance:

Information gathered from employers will be generalized in the final report. No employer or individual interviewed will be identified without prior permission.

Firm Description:

What is the nature of your business?

____
____
____

I. Present Hiring Practices

1. How do you go about recruiting, screening, and hiring your employees?

____
____
____

2. What do you look for in a qualified applicant?

- previous work experience
- previous employers' recommendations
- years of completed schooling

- school credentials (high school diploma, community college certificate, college degree)
- academic performance
- teacher recommendations
- applicant's attitude and presentation
- applicant's communication skills
- score on any firm-administered tests
- industry-based credentials

3. What sources do you use to find new employees?

- current employees (word of mouth)
- temporary employment agencies
- suppliers
- competitors
- newspapers
- public employment services (formerly the Texas Employment Commission) or local job training program (JTPA)
- other: ________________

4. Have these practices changed in the last 2 to 3 years? If yes, how?

____
____
____

5. How much difficulty do you have recruiting and hiring qualified workers? Over the last 2 to 3 years, has this difficulty increased, decreased or remained the same?

____
____
____

II. Past experience with public employment and training programs

1. Have you ever participated with the public schools and/or public employment and training programs? If so, how? What activities and/or services?

____
____
____

2. What was your impression of the quality of these services? How could they be improved?

____

____
____

3. Were there things that served as effective incentives, either financial and/or non-financial, in getting you involved? If yes, what were they? Were there noteworthy disincentives?

____
____
____

4. Have you ever taken advantage of government offers of subsidies (e.g., tax credits, partial wage payments) to hire and/or train workers? If so, from what level government (federal, state, or local)? In your opinion, what impact do financial incentives (such as wage subsidies or tax credits) have on employer hiring and training decisions?

____
____
____

5. If your organization has not participated in public training services to train new or existing employees, why not?

- not aware of them
- don't know who to approach for information
- too expensive
- fear of violating some unknown government rule, regulation or law
- they have not been responsive to our needs in the past
- our training needs are too unique or specialized
- they would not be able to meet our standards
- we do all of our own training
- other: ____________________

III. Employer Training Practices

1. What kinds of training do you provide to your employees?

____
____
____

2. What are your primary sources of training for your employees?

- in-house training department
- private outside vendors or consultants

- equipment suppliers or buyers
- industry or trade associations
- government-funded training (JTPA/Smart Jobs)
- technical and vocational institutions
- community colleges
- four-year colleges or universities
- apprenticeship programs

3. Have these practices changed in the last 2 to 3 years? If yes, how?

____
____
____

4. What are the main reasons you provide training?

- improve basic skills
- develop life skills
- increase productivity
- promote personal or career development of employees
- improve employees' work habits and attitudes
- introduce a new product or service
- introduce new technology
- provide for certification or licensing
- other: ____________________

5. Has the amount of training you provide increased or decreased over the last 2 to 3 years? Why?

____
____
____

6. If the amount of training you provide has increased, what are the reasons for this increase in training?

- changes in products or services
- increase in competition
- changes in technology
- changes in organization of work, greater employee involvement
- need to improve quality of product
- need to improve worker productivity

7. Do you want to provide more training than you do now, but don't think you can? What are the reasons that limit the extent of training you provide?

- workers can learn jobs without it
- skilled workers are hired from outside the firm
- skills provided by schools are sufficient

- inadequate funding for training
- benefits of training are unclear, not sure they exceed costs
- turnover is too high
- workers we train would go to other firms
- no time available for training
- other: ________________

IV. Employer Engagement

1. Under what conditions would you use the services of the new Texas workforce system?

____
____
____

2. What incentives (if any) do you think government should use to get employers to use the new Texas workforce development system?

____
____
____

Other comments:

____
____
____

Thank you for your time.

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